Your Own Salon... Is It in Your Future?

Now there are three ways to have your own business: rent a station, open a studio salon or a storefront operation.

BY LAURIE MCKINZEY

You'd be your own boss, make more money, have creative freedom and more prestige. Right? Or maybe you'd work harder, "baby-sit" your employees, be inundated by paperwork and go broke! You can't predict the outcome but to have an enjoyable and profitable experience, you need to do some investigating to determine which method of salon ownership, *if any*, is best for you.

SHARON WATTS

We'll help you explore all the salon ownership alternatives available to you, focusing primarily on the financial aspects, since this is the area that causes the most problems. Most beauty professionals are creative enough to design a great-looking salon and pamper their clients, but few have the financial skills to compute all the costs or forecast profits.

This lack of financial experience creates two common misconceptions at opposite extremes:

- **The "Easy Money" Group** thinks owning and financing a successful business is simple; all they need is a little money and talent to open a first-class salon with the best employees. And they're sure that once the doors are open, high-paying clients will stand in line for services. The harsh reality is that opening and operating a salon is expensive, keeping good employees is difficult and a high-paying clientele is far from assured.
- **The "Chicken Little" Group**, at the other end of the spectrum, fear the sky will fall if they venture into the unknown territory of the business owner, despite the fact that they could be very successful with a good business plan.

Of course, as a potential business owner, you want to avoid either of these extremes. Instead, examine all the alternatives and decide what's best for you. There are three main opportunities for a would-be salon owner: a booth rental, a studio salon suite, or a traditional storefront salon. To find the option that best suits you, look closely at the costs and benefits of each alternative.

CAREER MOVES

BOOTH RENTAL

If you don't want the responsibility of having your own salon but want more independence and the opportunity to increase your income, booth rental can be a great option if you have good clientele. There's no investment required, no overhead and no management skills or headaches. Another benefit is that if you can negotiate a booth rental arrangement at your current salon, you won't have to move and risk losing some of your clientele. The amount salons charge a nail technician to operate in their salon can vary anywhere from $350 to $750 per month; all sales above that amount belong to the technician. Look at what your average sales have been and calculate your potential profits to see if this setup would be most profitable for you. The main disadvantage with booth rental is that you don't have total independence or the prestige of having your own salon; however, if you don't want the hassles and risk associated with ownership, this can be a great choice. Both you and the salon owner should check with an attorney and an accountant to make sure you're in compliance with treatment and compensation for "independent contractors," which is what you'd become with booth rental.

STUDIO SALON SUITE

This is a fairly new option available in many parts of the country, but the concept is growing rapidly. "Studio salons" or "salon suites" provide a low-cost alternative for people who want their own small salon. Your studio salon would be a small suite with its own private entrance in a building alongside 20 to 40 other studio businesses. You could choose your own salon name, decorate to suit your image and set your own schedule. Suites are typically around 100 square feet and usually come equipped with a sink, one or two nail tables, chairs and storage cabinets so your upfront investment is minimal (supplies and business cards). The lobby, washrooms, washers and dryers and break room are provided by the landlord and shared among all the tenants. Studio salons typically cost around the same as booth rentals, but you have the feel and freedom of your own salon instead of just a table in someone else's. Again, you avoid the problems and overhead of a larger, storefront salon.

If you want the feel and freedom of your own salon, a studio salon may be the answer.

Ada Navarro, owner of Nails by Ada at Studio Salons in Chicago, describes her decision to open a studio salon: "I wanted to have my own salon without a lot of hassles. I didn't want to have to take care of kids at home and also babysit employees at work, which is often what managing people is!"

Some former storefront salon owners choose studio salons after they've had a taste of owning a larger salon. Linda Fess closed the large storefront salon she'd opened with two friends and opened her own studio salon, Nails by Linda, at Studio Salons (Arlington Heights, Illinois) after she and her partners decided to simplify their lives. "We had a hard time keeping good staff at our salon. And if you can't keep good people, it's hard to justify the overhead. With my studio salon, I serve my clients in a nice environment, but I'm only responsible for myself."

An added benefit for nail technicians is that most of the other tenants will be hairstylists, so you can often get a lot of referrals from your tenant neighbors. The main disadvantages are handling all scheduling and record-keeping tasks yourself, and you don't have the visibility as with a larger, storefront salon, which means fewer walk-ins. If more visibility is your goal, why not use a studio salon as your "starter salon"? After a few years' experience and profits, you can graduate to a bigger, storefront situation.

STOREFRONT SALON

Most beauty professionals envision a storefront salon, despite the simplicity of a booth rental or studio salon. And who hasn't dreamed of driving down the street past a salon with *their* name on it—in bold neon?

With a storefront salon you have the potential for higher profits if you can

PROS AND CONS OF SALON ALTERNATIVES

	Booth Rental	Studio Salon Suite	Storefront Salon
Positives	Low overhead; no management skills required; scheduler/assistant may be provided; may get more walk-ins.	Low-cost way to start your own small salon; landlord provides most equipment and construction; no employees to manage; shorter-term lease.	Higher visibility; larger—can spread costs over more nail techs; good location may bring more walk-ins.
Negatives	Less independence; must live with someone else's rules & image.	Must handle schedule and management tasks; usually fewer walk-ins.	Higher start-up costs and overhead; significant management responsibilities.

attract good employees and clients. In addition, the more employees you have, the wider your referral base will be. And having more employees actually lowers the cost per employee, since you can spread your fixed overhead over more people. And, of course, you have the most visibility and image of all the ownership alternatives.

However, along with these considerable benefits comes considerable risk: All management responsibilities fall on your shoulders. Start-up costs and overhead are substantially higher so you need to invest more time and effort in projecting your expected sales, expenses and profits. If the numbers come out right, and you have a good business concept, the next step is to determine if you have the management skills, risk profile and stamina to be a successful storefront salon owner.

Many tenants share common areas such as lobby and restrooms in a studio salon setup.

ESTIMATING YOUR SALES

Look at your numbers and decide if your business concept will attract enough customers to justify your upfront investment and ongoing monthly overhead. The most critical part of this step is estimating sales. To get a clear picture, ask yourself some key questions:

- How much of my clientele will follow me to my new salon?
- What percentage of my time will be spent on salon management issues (the average is 10-20 hours weekly)? Will I reduce my time serving clients (i.e., generating sales) by that amount, or just work more hours to make up for it?
- Will I have partners who I can count on to bring in revenue? How much would they bring in, and how would having partners reduce my own profits?
- Realistically, how many employees can I attract? What kind of sales will they bring in, and what percentage of these sales will I keep?
- Will my new location attract walk-in traffic or provide me a new community to attract new customers? How much will I have to spend on advertising to attract new clients?

If you and your partners have an established clientele, estimating sales is relatively easy. But estimating profits from employees not yet hired is trickier, and would-be salon owners often overestimate this amount. They assume that if they have six stations, they'll get revenue from all six stations. However, anyone who's been in the salon business knows it's hard to attract good people. There's usually a high turnover. And good employees with strong clientele rolls are difficult to attract, since they could go to any salon and command a better commission split for themselves. In fact, attracting good employees is the No. 1 problem for salon owners, according to a recent survey done by the Chicago Cosmetology Association.

If your new business will depend on other people's efforts in addition to your own, do one of two things:

1) If you've already identified your employees (maybe you're already working with some), be quite certain that they'll join you in your new venture and stay with you. After all, your projections include being able to count on their sales.

2) If you have yet to identify employees, you must have a well-thought-out strategy for attracting new people to work for you.

Once all these issues are settled, and you have good estimates of sales, use these projections to estimate potential revenues.

After you've made your projections, give your figures to someone with a financial or business background; he or she can help determine if you're being overly conservative or wildly optimistic. If everyone agrees that you have a money-making proposition on your hands, the next step is to see if your dream is affordable!

Estimating Expenses. When estimating expenses, look at two areas: start-up expenses and ongoing monthly expenses. Make sure you'll have enough revenue to justify both areas. A common (and tempting) mistake is to scrimp on the upfront investment, only to find you can't attract clients or employees because of poor location or an unattractive salon. Who cares if you saved yourself some money if it ultimately causes you to go out of business?

On the other hand, one of the most

STOREFRONT SALON REVENUE ESTIMATES

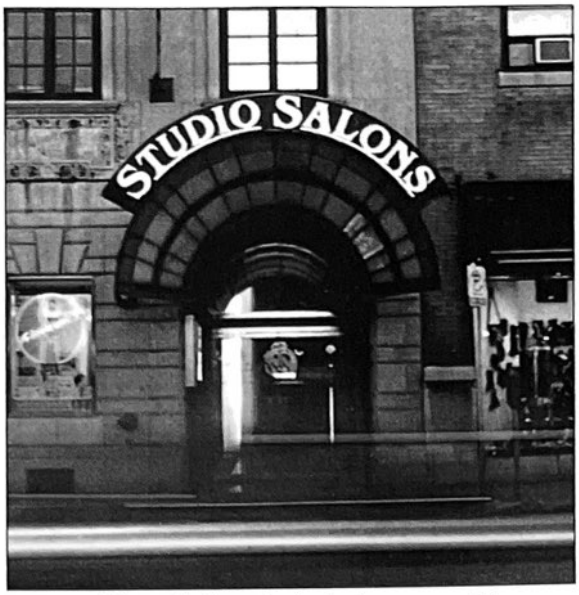
Your sales	$ _____
Any reduction in sales due to time spent on management or lost clientele	-$(_____)
Your partners' sales	$ _____
Employee sales less commission	$ _____
Reduction in employee sales due to turnover or unfilled positions	-$(_____)
Total estimated sales	**$** _____

critical success factors for any new business is staying within your budget. How do you determine your budget? Ultimately, remember to keep your budget closely tied to your business concept. Ask yourself:

- Am I hoping to attract many new customers to support my sales projections? If so, be prepared to pay more for better location and advertising. If you already have loyal customers, a less expensive, secondary location might work for you.
- Am I competing on price or on an upscale image? If you expect to attract upscale customers, you need to pay for an upscale image—build-out, marketing and public relations. If you're competing on price, you can cut a little more on costs.

Once you determine the level of spending required for your salon concept, do a detailed cost estimate:

Start-Up Expenses. These can vary wildly. A bare-bones budget would be $10,000; a high-end budget, $100,000 or more. Most new salon owners spend from $20,000 to $50,000. Jim Turner, Metro Wholesale Salon Equipment in Dallas, estimates that its typical construction budget is $25 a square foot (i.e., $25,000 for a 1,000-square-foot salon). With good credit and collateral, you can sometimes get the landlord to finance about half this amount, and you'll need to pay the rest upfront. However, if you're a new business or have credit problems, you'll likely have to finance the entire construction budget.



You could share a building with other businesses or go all the way with a storefront salon and put *your* name over the front door.

Equipment. Start-up costs for equipment include hair stations, which vary between $1,000 and $4,000 each. Nail stations cost between $300 and $1,000 for a full setup. Figure that, in a typical 1,000-square-foot space, you can fit about six or seven stations. Metro Wholesale and other distributors do sell used equipment, but Turner doesn't recommend trying to save money that way. "Used equipment typically costs just 30% less than new,

(continued on page 128)

REAL ESTATE AND OPERATING COST CHECKLIST

Upfront Expenses

Equipment ..... $_____
Furniture/decor ..... $_____
Security deposit/prepaid rent ..... $_____
Supplies/product ..... $_____
Construction:
Plumbing: sinks and washrooms ..... $_____
Electrical/lighting/phone systems ..... $_____
New walls ..... $_____
Paint/floors ..... $_____
Heating/air conditioning ..... $_____
Salon ventilation ..... $_____
Hot water heater and installation ..... $_____
Washer/dryer and installation ..... $_____
Break room cabinets and appliances ..... $_____
Blueprints/renderings and permits ..... $_____
Contractor's profits (15-20%) ..... $_____
Contingency (10%) ..... $_____
Rent during construction period ..... $_____
Signage and permits ..... $_____
Other ..... $_____

Total Upfront Costs ..... $_____

Monthly Expenses

Base rent or mortgage payment/
real estate taxes ..... $_____
Utilities ..... $_____
Insurance ..... $_____
Common area maintenance ..... $_____
Other maintenance ..... $_____
Supplies ..... $_____
Cleaning ..... $_____
Drinking water/coffee service ..... $_____
Pest control ..... $_____
Operating licenses ..... $_____
Advertising ..... $_____
Telephone ..... $_____
Credit card service charges ..... $_____
Salaries ..... $_____
Employee benefits and taxes ..... $_____
Other ..... $_____

Total Monthly Expenses ..... $_____

(continued from page 125)

and the disadvantages usually don't justify the small savings."

Other Start-up Expenses include security deposit, any prepaid rent required by the landlord, signage, lobby furniture and decorations, service supplies, advertising—and whatever cash on hand you'll need to pay expenses until you turn a profit.

Monthly Expenses. These costs will vary, depending on how many employees you have, your rent and other operating decisions. A common misconception, however, is that rent is the bulk of your expenses and, if you can cover that, you'll make lots of money. Not so. Rent in a typical small salon is often less than half of total expenses. So add up your expenses carefully before you take the plunge.

As with any salon, expenses will vary. The important thing is to use a checklist and go over all expected costs so you'll know, before you start, if you'll be profitable.

One final note: A large, high-profile salon or day spa is generally not recommended for first-time salon owners. Although these can be wildly profitable, they not only require a large upfront investment but a lot of business and marketing savvy as well. It's better to be successful with a small salon first, then expand from there. Don't shoot for the big time until you're really ready.

With all these alternatives, how do you decide the best option for you? If you're like most beauty professionals, you'll end up following one of these strategies:

Happy Campers. You'd rather not have the responsibility of running the show. You should find a place to work where you can enjoy the best mix of a good working environment and good pay.

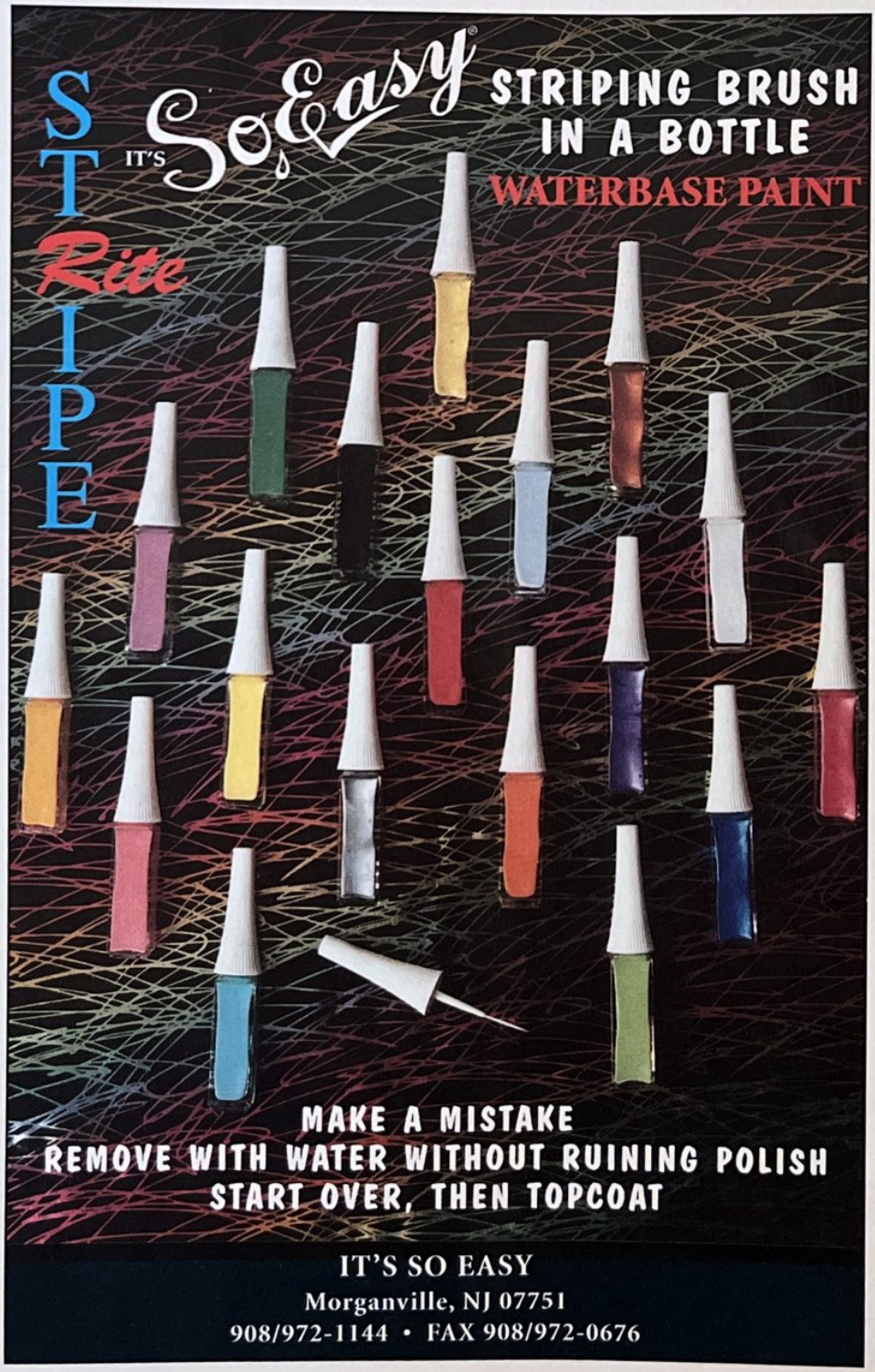
Just Me, Thanks. You'd be happy in a small studio salon for a long time. Who needs a high-profile salon when you can have your own small business with no headaches?

Small Steps First. A studio salon sounds good for a few years. You'll learn how to run a business, then expand into a larger, storefront salon.

Ready for the Big Time. High visibility? You're ready for that storefront salon right now and will do whatever it takes to make it happen.

Which one are you? That's for you to decide, and your image of yourself will also change over time. With so many alternatives available to pursue your dreams, you can have a great career in many different ways. The important thing is to think through your dreams carefully and develop the plan to realize them in the best possible way for you. ♦

Laurie McKinzey is owner of Studio Salons, a salon suite concept salon with locations in Chicago and Arlington Heights, Illinois. She has a Masters in Business Administration and is a licensed real estate broker with seven years of commercial real estate experience.



For More Information Circle 62 on Reader Service Card